

**Statement of Ross Davidson,  
Administrator, Risk Management Agency, US Department of Agriculture,  
Before the House Committee on Agriculture,  
Subcommittee on General Farm Commodities and Risk Management  
September 18, 2002**

Mr. Chairman, thank you for the opportunity to report to this subcommittee on the effectiveness of the Federal crop insurance program in providing risk protection for our Nation's farmers and ranchers, and USDA's progress toward implementing the changes in the program as a result of the Agricultural Risk Protection Act of 2000 (ARPA).

Let me begin with a few statistics. For this crop year, the program is expected to provide an estimated \$38 billion in risk protection through nearly 1.3 million policies covering over 212 million acres. Almost 80 percent of the Nation's insurable acreage is included in the program. Based on current conditions, we are estimating that the program will provide about \$4.1 billion in indemnity payments in 2002, mostly for production losses for the major commodities, although some will be for losses of income due to price declines. Prior to the enactment of ARPA only about 8 percent of acreage was insured at coverage levels of 70 percent or higher; however, in 2002, about 53 percent of the acres are insured at coverage levels of 70 percent or higher. This means that the typical producer who is participating in the program, could receive as much as 70 to 75 percent of his/her expected income for insured crops – regardless of how bad growing conditions may be for the rest of the year. Those producers who have revenue coverage with harvest price options will fare even better given the appreciation in future prices.

I believe that these statistics demonstrate how important the program is to American agriculture. Simply put, the program is the primary source of risk protection for our Nation's farmers and ranchers.

There are, of course, notable gaps, especially for livestock producers. Only a limited amount of pasture and hay crops are insured and only limited protection is being offered for livestock losses at the present time. Further, many specialty crops are without coverage. As Administrator of the Risk Management Agency (RMA) which is responsible for the crop insurance program, I am fully committed to working with private insurance industry and the Board of Directors of the Federal Crop Insurance Corporation to fill as much of the gap as possible – so that all our Nations' farmers and ranchers will have equal access to adequate risk protection at an affordable price. I would note that the Board recently approved two new insurance products for livestock producers. Coverage is also being expanded for aquaculture and nursery crops.

With regard to ARPA, I am pleased to report that much has been done to implement the provisions of this Act. As you know, ARPA provided for a substantial increase in funding for subsidizing premium rates, particularly for the higher levels of coverage. RMA implemented the new rate structure almost immediately after the Act became law and, as a result, all participating producers began receiving the benefits of this action starting with their 2002 crop.

Virtually all of the substantive ARPA requirements that do not require a change to our basic insurance policy are fully implemented and working, and we have just published proposed changes to our basic insurance policy for comment. We will seriously and expeditiously consider all comments. We hope to have a fully implemented, updated policy published by early December in time for the first early January 2003 filing dates for the 2004 crop year and to avoid a split-year implementation of these changes. When finalized, these changes will improve the program for farmers and will protect the integrity and viability of the program

### Future Growth

ARPA also established the vision of an array of risk management tools being made available to a well-informed community of producers across the full range of agricultural commodities in all states. RMA was given a charge to help fulfill that vision in substantive ways - to go beyond the traditional role of providing crop insurance to better serve America's enterprising and increasingly sophisticated agricultural producers and their markets. Please allow me to report on some of the initiatives we are pursuing to meet that challenge.

A strategic priority for the agency is to provide widely available, easy to use and effective risk management products. The private sector product development system mandated by ARPA is fully implemented and has spurred a flurry of development. This is a serious and intense process that requires a much more significant amount of time,

expertise, administrative support, Board support and expense than is apparent on the surface. (See Attachment A) I thank RMA staff for their support and dedication, and their ability and willingness to adapt in this high-growth, dynamic environment.

Our new Board of Directors is very active. Their insight, integrity and serious attention to their responsibilities are impressive. I can say, without reservation, that the Board, and expert reviewers who assist them, are proactive in their review and approval of proposed products. In turn, this serves to ensure that the legitimate needs of the producers are met and that the integrity of the program is maintained.

Since March, the Board has met five times. There are 12 products currently under consideration and four have been approved this fiscal year. Many of these proposals require substantial Board guidance and staff assistance to bring them to fruition, as well as to implement and maintain them. This takes more time and resources than I would like. We are evaluating this process to try to shorten the cycle time, simplify our product offerings, and to prioritize our efforts to ensure full coverage of all significant risks, and efficient and responsible oversight, and administration of this process.

A lot of RMA's resources are focused on facilitating and overseeing new product development, reinsurance and administration of the product portfolio. This includes many of our field representatives to ensure that products are tailored to, and meet local needs. Our products cover a long list of commodities and we are working feverishly to extend and increase coverage to more areas, more commodities and more producers.

We are working diligently to extend much needed protection to America's ranchers. Our first two livestock pilots for swine were introduced this summer and other products are under Board review. We are also endeavoring to refine, develop and expand forage and rangeland programs. In 2002, our Regional Offices approved 487 forage or forage seeding written agreements. For 2003, we expanded forage production and seeding coverage to 207 new counties. I recently approved an alternative risk management approach utilizing a computerized model that uses weather, environmental characteristics and plant growth to determine coverage and losses for pasture and rangeland. There are many complex challenges in designing a forage and rangeland program and we hope to strike a reasonable balance between producer need and program integrity.

We are striving to increase understanding and effective use of our many and expanding programs. This year, the funding and authorization you provided allowed nearly 10,000 limited resource, socially disadvantaged farmers and producers in underserved areas to learn the principles and practices of effective risk management and how crop insurance can help them. For 2003, we are currently negotiating over 90 projects to provide risk management education to underserved states, commodities and limited resource producers.

## Program Compliance

RMA is both a participant and a regulator for the crop insurance program. Ensuring the sound development, broad coverage and fair and efficient delivery of effective risk management products for all of production agriculture is no small task. We are very aware that the financial strength of insurance companies and the administration of these products are critical to ensure that contractual obligations and market expectations for payment and service are met and exceeded. Tough years can exacerbate concerns about the financial or operating viability of individual companies. If any company fails to meet its obligations, we will ensure fulfillment through prompt corrective actions, through other insurance companies in the system, or directly by RMA, if necessary.

We have just released, and have here for you, the Secretary's first annual compliance report under ARPA. The report applies to 2001 and was a long time in coming, but I hope you will appreciate the progress we have made in implementing and using new tools and processes for detecting fraud waste and abuse, including spot checks by trained Farm Service Agency (FSA) employees and the Office of Inspector General (OIG) hotline that gathers reports from concerned citizens. We also use "data mining" and RMA/FSA data reconciliation and are successfully employing satellite imagery and aerial photography to support these efforts.

These initiatives, and the combined efforts of RMA investigators and Federal and State prosecutors, resulted in \$35 million in recoveries in 2001 and an estimated \$94 million in cost savings. We are streamlining our processes, prioritizing our work, and generally trying to be smart and responsible in the use of our limited resources. But, the integrity of this program is everyone's full time job, including those who design, deliver, administer and use the products. I believe we must increase our efforts to discourage and deter fraud, waste and abuse. I would much rather put a police car with flashing lights at an intersection to discourage people from doing things that would wreck their lives than to have one hiding behind a bush to catch them after the fact.

We also recognize the need to increase the accuracy and reduce the burden of data reporting by our farmers. We will continue to work with producers, insurance companies and their agents, and with FSA to that end.

### Drought Relief

How is crop insurance helping address the current drought? Let me tell you about my recent tour of drought stricken Colorado, Kansas and Nebraska. I went to listen and learn so we could better serve producers. I did not go away empty handed. In the seven meetings I attended, with nearly 800 participants, many expressed gratitude for crop insurance. They said they would not have survived without it. But they also described, and I saw first hand, the effects of widespread and extended drought. They

were glad to have some of their questions and misconceptions about the program cleared up. Just as important, they also had some good suggestions on how to improve our products.

We thank the insurance companies and their agents and adjusters who have streamlined their processes and shifted resources to promptly serve hard hit areas. Although in some areas the rush of business appears overwhelming, we have been assured that they are working diligently to adjust producer claims as quickly as possible.

This year crop insurance will be a Godsend to many, but we can still improve it. This prolonged drought has revealed areas in which we can make our products more responsive to extreme conditions and needs. For example:

- We have learned that even though ARPA allowed for substitute yields in extreme disaster years, extended drought still results in lower guarantees at the worst possible time. This is a difficult issue and we are exploring possible solutions.
- We also have learned that our rules for prevented planting coverage due to drought cause uncertainty and are not sensitive to individual situations that can differ from producer to producer or even within one farming operation. Any viable solution will require a collaborative effort. As a first step, we have called a series of prevented planting forums to work with producers, agents, companies and FSA to clarify and improve the rules. We hope to protect the integrity of the program and provide clear and predictable guidance for drought induced prevented planting coverage. We need easily understandable and practical rules



on which producers can rely to make decisions without second guessing months or years later.

- We also want to make sure crop insurance does not tempt producers to do things they would not do if they did not have insurance.

Two of our strategic priorities are a well-informed customer and a fair and effective delivery system. We have a good start on these, but there is a lot of room for improvement. This system involves over 25,000 professionals including RMA, the insurance companies, insurance agents and loss adjusters. It requires constant care and feeding. Our products are many and complex. We need clear, correct, consistent and coordinated representation and administration of products by agents, loss adjusters, insurance companies and RMA staff. Good communication and rumor control are full time jobs. While I believe we are rebuilding productive and functional relationships and good communication among the parties in this process, we need to do -- and are doing -- much more

When my friends congratulate me on this appointment, I say: "I would much rather be congratulated at the end of my service." I hope I can merit those congratulations upon my last report to this subcommittee. I thank you for your kind attention. Now my staff and I will be happy to respond to your questions.